



Beyond Facts: Understanding Quality of Life

Executive Summary

**Development
in the Americas**

Beyond Facts: Understanding Quality of Life

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Development in the Americas is the Inter-American Development Bank's flagship publication, which will be published annually in place of the *Economic and Social Progress Report in Latin America*. Like its predecessor, *Development in the Americas* will present comparative data and analysis on the most relevant development issues facing Latin America and the Caribbean today.

The views and opinions expressed in this publication are those of the authors and do not necessarily reflect the official position of the Inter-American Development Bank.



Quality of Life Goes Beyond the Observable Facts

Chile is one of the most prosperous countries in Latin America and the Caribbean, but the inhabitants of 10 countries with lower per capita incomes among them Guatemala, Venezuela and Brazil say they are more satisfied with their quality of life. A large majority of the people in Latin America and the Caribbean are satisfied with the quality of their education, although international measurements show that many students in the region lag behind their peers in Asia and Europe. Moreover, many Latin Americans feel satisfied with their informal jobs, although they lack pension plans or other benefits of a stable job. These are some of the paradoxes that emerge from the Inter-American Development Bank (IDB) study based on polls by the Gallup Organization taken between November, 2005 and December, 2007. Gallup conducted interviews of over 70 questions with 40,000 people in 24 countries in the region, supplemented by in-depth interviews carried out by other institutions in five countries.

Beyond Facts: Understanding Quality of Life is the result of an exhaustive analysis of these polls that reveals that quality of life is not simply the result of “objective” conditions, which are the aspects of the lives of individuals that are externally observable. The way individuals perceive these conditions and the evaluation they make of their own lives are also central aspects of quality of life. Since the valuation that individuals implicitly give to many of the things that count in their satisfaction differs openly from the valuation that the market gives them, a higher income or consumption level does not necessarily mean a higher level of individual well-being. If the increase in income means sacrificing health or family life, the result can be an even lower quality of life.

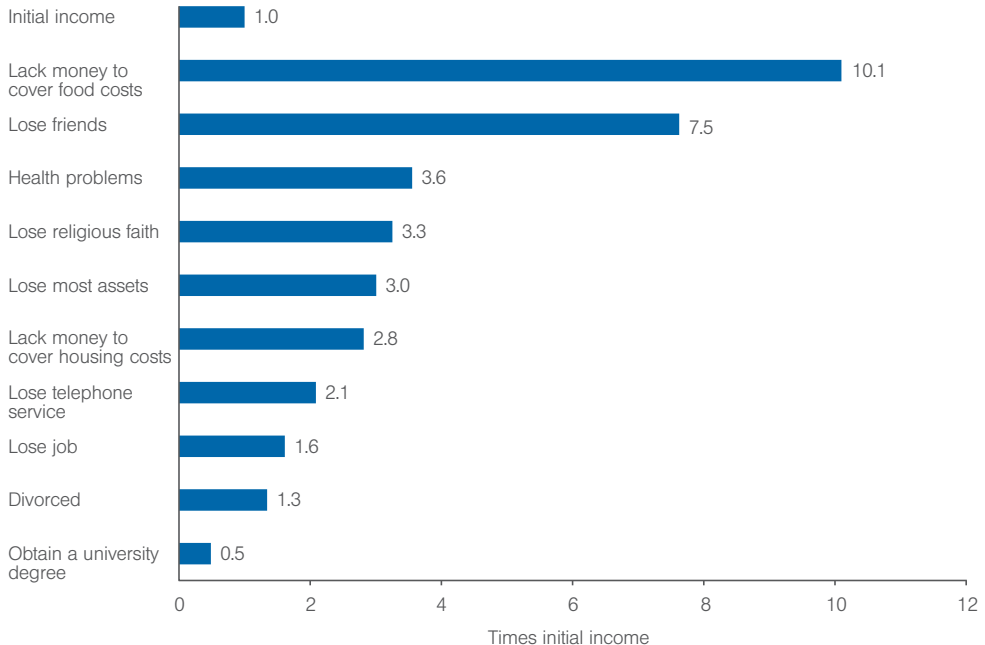
Maximize Happiness?

The only comprehensive evaluation of quality of life that does not require mixing various indicators in a more or less arbitrary fashion is the one that individuals make themselves when asked about their level of happiness or how satisfied they feel with the life they lead. But this does not mean that the objective of public policies should be to maximize happiness or life satisfaction because many of the most important aspects of life, such as friendships or religious beliefs, are beyond the scope of government intervention (see box). Moreover, the evaluations individuals make of their own lives are easily manipulated externally, are subject to inconsistencies and contradictions, and are affected by biases of self-complacency, especially among individuals who have fewer opportunities, a lower level of education or are more socially isolated. However, for these very reasons, politicians and leaders must try to understand how perceptions are formed and how they influence the attitudes of individuals and their relations with institutions and public policies. People's opinions are also essential for understanding how their well-being is affected by circumstances beyond individuals' control, such as macroeconomic instability or inequality, and for analyzing behavior that cannot be explained by a purely economic approach because it is the result of social norms or individual excesses (such as addictions or obesity).

What Counts in Life

In the opinion of Latin Americans, some of the things that count most in their life satisfaction are, in order, being able to buy food, having friends to turn to, enjoying good health and having religious beliefs. The implicit value that individuals assign to these conditions, which in some cases is very subjective, can be much greater than their own income. For example, if Latin Americans are left without friends to whom they can turn, they would have to receive 7.6 times the income they originally had in order to recover their initial level of life satisfaction. And if they lose their job, it would not be sufficient to replace their income; they would have to receive an additional 60%, because a job is not only a source of income but also a matter of personal fulfillment (Figure 1).

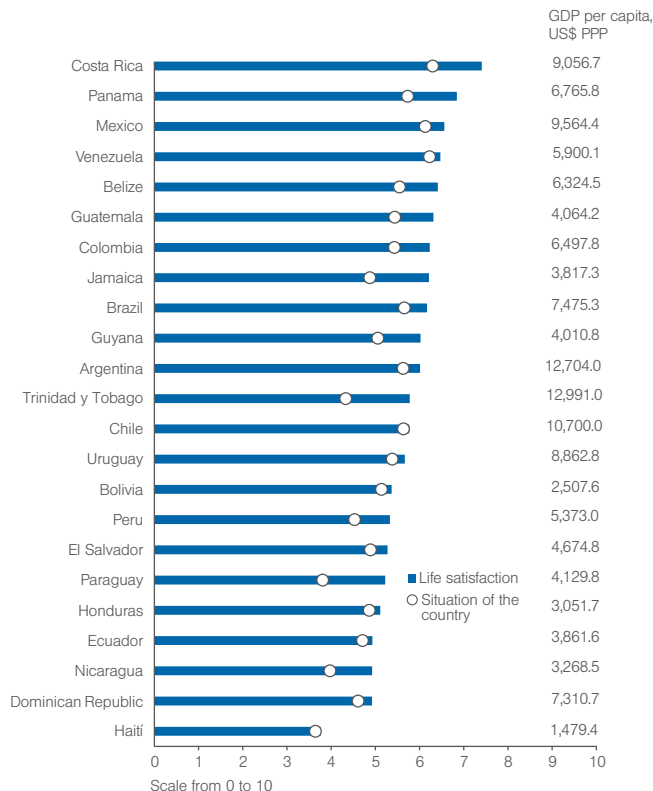
Figure 1: Annual income needed to maintain individual's initial level of satisfaction when faced with change (compared with initial income)



Life Satisfaction Among Latin American and Caribbean People

In keeping with their greeting, “pure life,” Costa Ricans are the most satisfied people in the region, followed closely by Panamanians, Mexicans and Venezuelans. The peoples of Haiti, Dominican Republic and Nicaragua appear among the least satisfied with their lives. People’s opinions about their countries are closely related to their opinion of their own lives, but in general people have more favorable opinions about themselves than about society. Satisfaction with almost every dimension of personal life and with the conditions of countries is very much related to the average income in countries around the world. However, relatively rich countries in the region, such as Chile and Trinidad and Tobago, have low satisfaction levels for their income levels (Figure 2).

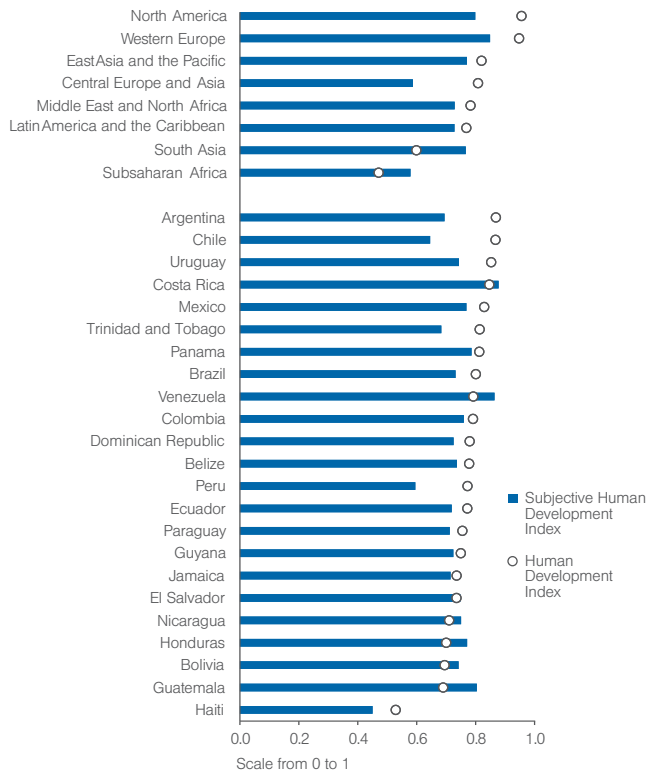
Figure 2: Life satisfaction ranking



The Gap Between Opinion and Reality

Opinions are influenced by reality, but they are not its reflection. If a Human Development Index is constructed based not on the objective indicators of each country's income, health and education (which form the traditional HDI of the UNDP) but on people's opinions of their own income, health and education, they are found to be closely correlated (55%); however opinions in some countries are too optimistic and in others too pessimistic. In Latin America and the Caribbean, Guatemala and Venezuela have very favorable opinions considering their objective conditions of human development, while people in Argentina, Chile, Peru and Trinidad and Tobago do not give sufficient recognition to their own achievements (Figure 3).

Figure 3: Human development perception and reality



The Unhappy Growth Paradox

Satisfaction with life in general (and with almost all specific aspects of people's lives) is greater in countries with higher levels of income per capita (Figure 4). The relation is very strong, even among the world's richest countries, which means that there is no income per capita ceiling beyond which the average satisfaction of a country cannot increase. But in countries that have enjoyed high growth rates in recent years, people tend to feel less satisfied with various aspects of their lives than people in other countries with similar income levels that have grown less. Dissatisfaction in rapidly growing countries is the result of the accelerated increase in expectations of material consumption, and competition for economic and social status. The unhappy growth paradox is a threat against policies that promote efficiency because some measures designed to temporarily mitigate discontent can be effective in that respect but at the expense of economically successful companies or individuals that serve as references for discontented groups. A strategy focused exclusively on growth has few possibilities of being politically sustainable (Figure 5).

Figure 4: More income, more satisfaction (each dot represents a country)

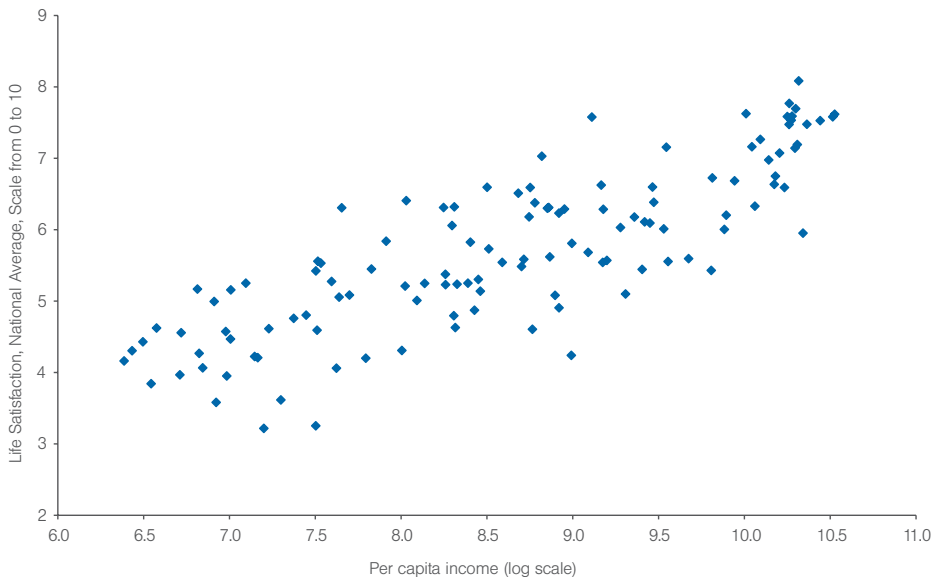
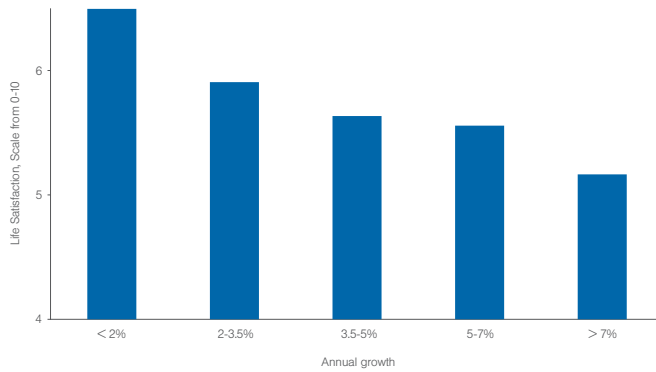
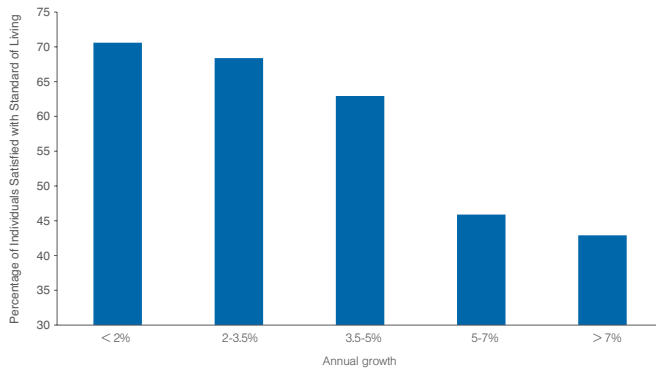


Figure 5: More growth, less satisfaction (each bar is an average of countries with similar growth rates)

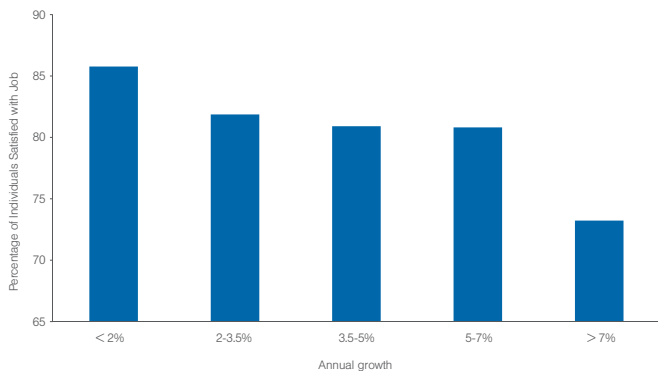
Satisfaction with life and growth



Satisfaction with material living conditions and growth



Satisfaction with employment and growth

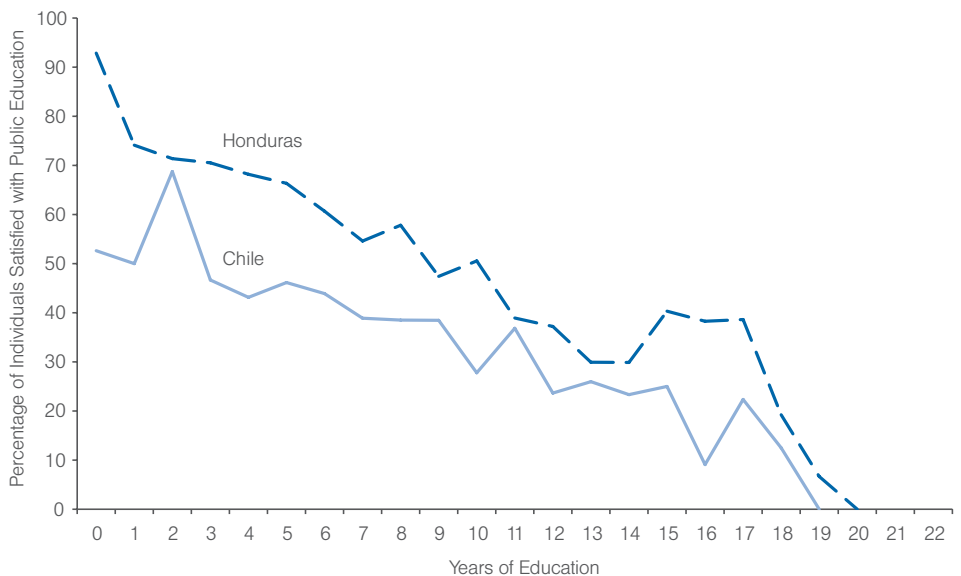




The Aspiration Paradox

The poorest and least educated have a better opinion of social policies than richer or better educated individuals in the same countries (Figure 6). Lack of aspirations weakens the demands of the poor for better education, health services and social protection compared with middle or high income groups that have more information and political influence. Societies that are more educated, more socially, ethnically and geographically integrated and more politically participative have better possibilities of breaking with this aspiration paradox. Discontented but politically active citizens are a better indication of social progress than a passive and tolerant society.

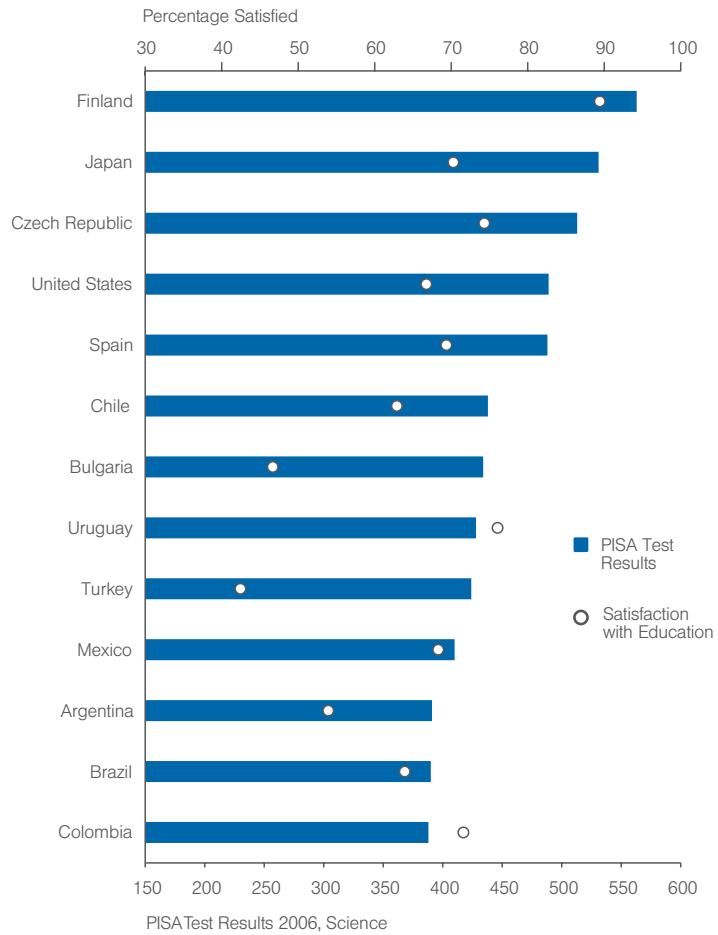
Figure 6: Those with less education are more satisfied with the quality of education



The Education Paradox: Low Scores, Positive Perception

Although the scores that Latin Americans achieve on international academic tests are very low, the population has a predominantly favorable opinion of their education systems (Figure 7). More educated individuals, whose aspirations and expectations are higher, have more critical opinions about the education systems of their countries. In general parents' opinions of the quality of the education system do not depend on academic performance but on the appearance of the schools, teachers' punctuality and security in the area in which the schools are located. Lack of information is not the only culprit in this misconception. Chile has made an enormous effort to implement national tests of students and publish the results. However, the academic performance indicators have practically no bearing on how parents choose which school to send their children to. However, this does not imply that parents make bad decisions, because academic training is only one of the objectives of education. Governments need to do better research on opinions in order to design more complete indicators of the quality of education, and education authorities would do well to improve their channels of communication with schools and parents, to emphasize the importance of measurements of academic achievement.

Figure 7: Latin Americans are more satisfied with their education than would be expected



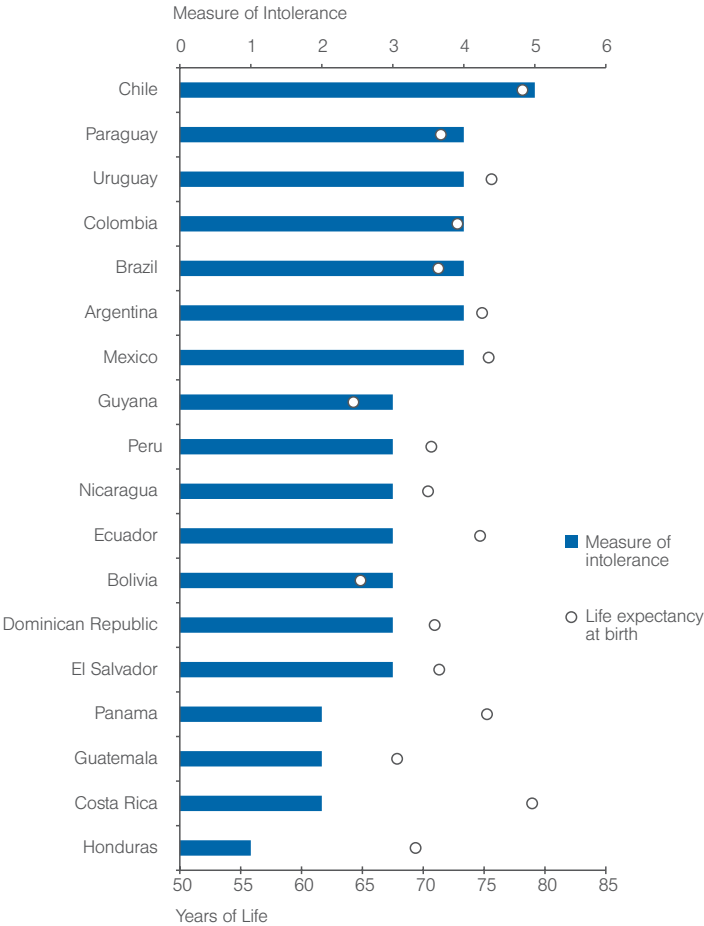
The Health Paradox: Being Healthy Is Not The Same As Feeling Healthy

Children born today in Latin America and the Caribbean have a life expectancy that is 20 years longer than their grandparents, to a large extent thanks to the lower incidence of infectious diseases. The mortality rates of most non-infectious diseases have also fallen, but their relative importance among causes of death is now higher. Alcohol and tobacco abuse, together with hypertension and obesity, are contributing to the growing burden of non-transmittable illnesses in people from all socioeconomic groups. Many of these complaints and problems can go unnoticed more easily than the illnesses of the past. For example, in Mexico 16% of interviewees were diagnosed with hypertension but only 3% were aware of their condition. Due to lack of knowledge of their situation, they believe they are healthy when they are not. But, also, for cultural reasons and because of expectations, individuals who know they have serious health deficiencies can say they are satisfied with their health. The proportion of Guatemalans who say they are satisfied with their health is very high, despite the indicators of mortality and sanitary inequality, which are worse in that country than in others. Chileans are the Latin Americans who are least satisfied with their health, although they enjoy longer lives with fewer illnesses and physical impediments. Tolerance to health problems differs considerably from country to country (Figure 8).

Aligning Expectations to Give Support to Health Policies.

In countries with higher levels of tolerance to health problems, it is necessary to provide more objective information on the health problems of the population, the improvements that could be achieved, and people's right to medical care, in order to mobilize popular support for public policies that can improve health and welfare. In contrast, in countries where tolerance is very low in relation to relatively good health conditions, better information about what public policies have achieved is required, and realistic expectations need to be created about the role of medicine and medical services in solving certain problems, and about the prevention efforts and health care for which individuals should assume responsibility.

Figure 8: Intolerance with health problems does not reflect objective conditions



The Employment Paradox: Informal but Content

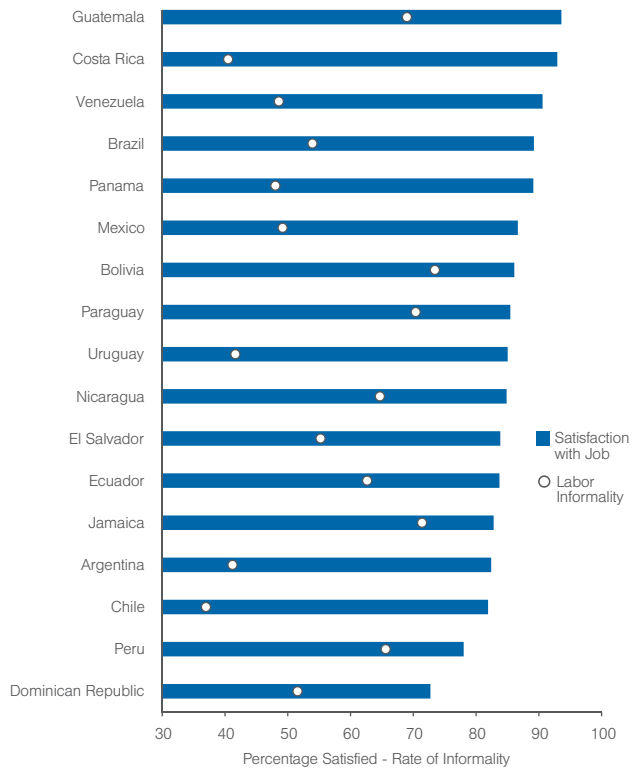
Latin Americans are surprisingly satisfied with their jobs: 82% of employed workers feel happy with their jobs, despite a very high level of informality (Figure 9), which has increased in the last decade, along with the percentage of workers who are not covered by the social security system, who have temporary jobs, or who receive wages below the minimum needed to escape poverty. The apparent incongruity between satisfaction with employment and informality reflects the greater value most people place on flexibility, personal skill development and recognition than on the conditions that conventionally define a job as good quality. In the region there are more formal employees who would like to be independent than self-employed workers who would prefer to be wage-earners. Discontent is much higher among employees of small firms than among the self-employed who manage their own working life. Only employees with higher levels of education recognize the value of having a retirement plan in the future. Under these circumstances, policymakers must rethink labor policies because their current objectives run contrary to the opinions and needs of many people.

How to Rethink Labor Policies.

Reform of labor legislation tends to be a difficult challenge because informal workers rarely have the political weight or sufficient interest in discussing labor policies, which means that policy decisions tend to be more adapted to the needs and interests of formal employees. But it is also a complex challenge because in certain aspects of social protection, such as pensions or accident and health insurance, the state has to induce individuals to take precautions that they would tend to ignore or postpone if left to themselves. To rethink labor policies it is useful to replace the simple dichotomy between formality and informality with a simple but more complete system of indicators of the quality of jobs that takes into account people's opinions and the various ways in which workers cover (or not) the risks of unemployment, income instability, illness, disability and retirement. Instead of aiming to ensure that jobs meet all the characteristics considered desirable, labor policies should aim to give workers diverse options to protect themselves from risks that do not depend on their staying in the same job and do not discourage large and more productive companies from creating more stable employment, as is the case at present. It is also necessary to facilitate job seeking and the transition between jobs by means of labor intermediation services and training of displaced workers. Minimum employment and transfer programs to help poor workers cover the risks of unemployment, health and old age should not be overlooked. But

proliferation of programs that treat formal and informal workers differently need to be avoided; in the end such programs make stable employment in more productive companies more expensive and subsidize less productive employment.

Figure 9: Job satisfaction in Latin America is high, despite informality



Urban Quality of Life: More than Bricks and Mortar

Although the process of urban expansion in Latin America and the Caribbean has been the most rapid in the world, the region has succeeded in democratizing property and providing basic services to most homes. Two out of three families have their own homes and, even among poor families, the majority owns the place where they live. About 95% of urban families have electricity and over 85% have access to water and even telephone service (thanks to the recent expansion of mobile telephony). Important deficits in services (especially sanitation) still exist in various countries and cities, and many homes have not been built with adequate materials and standards. Solving these problems is a challenge not only because of the cost involved but also because it is unclear how much families should pay and what financing mechanisms should be used. But improving quality of life in cities is much more than just bricks and mortar. Although four out of every five people say they are satisfied with their homes and their cities, most are aware that their satisfaction would improve if other problems were solved. The most common and urgent problem is crime. Almost 60% of Latin American and Caribbean people feel unsafe walking alone at night in their neighborhoods. No other region in the world suffers such a climate of insecurity.

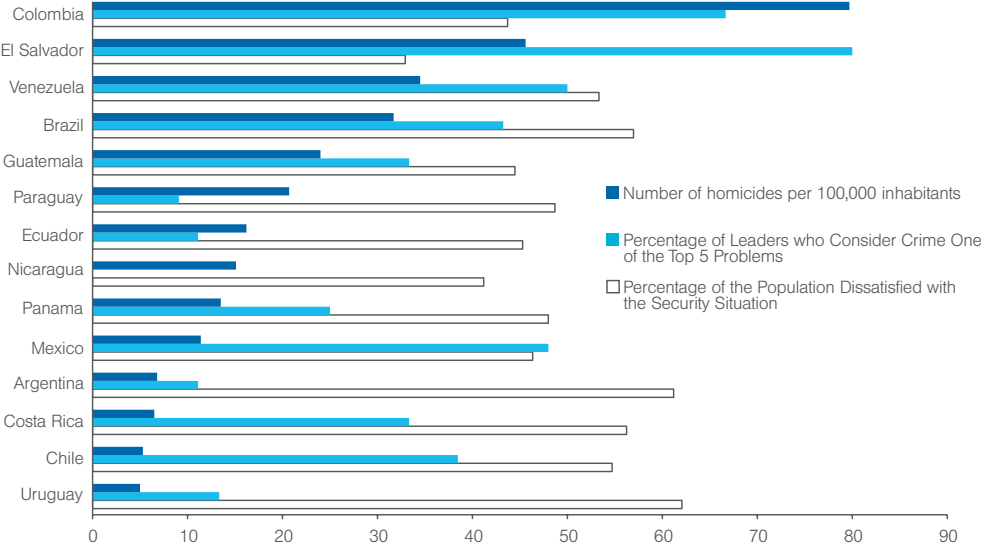
Crime rates do not reflect the level of insecurity people perceive and only rarely does the problem receive the attention it merits (Figure 10).

Measure to Improve.

Many other aspects of cities such as transport, quality of public spaces or recreation services, fall outside the generalizations because diversity is the essence of urban life: different people look for different things in the same city, and each city even each neighborhood can respond differently to the diversity of interests and needs of their inhabitants. Housing prices can be a good indicator of some of the things people need: in eight cities analyzed (Bogotá, Buenos Aires, La Paz, Lima, Medellín, Montevideo, San José de Costa Rica, and Santa Cruz, Bolivia) the value of homes is crucially dependent on the characteristics of the neighborhood, from street lighting and cleaning to distance from places of cultural value in the city (although differently in each city). But not everything that influences the quality of life is faithfully reflected in housing prices. Although the solutions to many urban problems cannot be financed through taxes tied to home values, cities have to invest in things, such as citizen protection, that most affect the quality of life. Because cities are very diverse, it is useful to establish detailed systems to monitor quality of

life that help local governments to identify the needs of urban populations. A good monitoring system can also help identify problems of racial and social segregation, geographic marginalization, and the absence of community values. The success of modern cities depends on solving these problems.

Figure 10: Crime rate, perception of security and attention to the problem rarely coincide



Perceptions in the Political Process

It would be an error to focus economic and social policies on maximizing the happiness or satisfaction reported by people in opinion polls. But it would be equally serious to ignore the role that public opinion plays in political processes. The demands voters make on their representatives reflect their beliefs about what governments can provide and what governments do or do not do to affect people's lives and the functioning of their communities or their countries. These beliefs are influenced by individuals' interests and objective conditions, but also, and perhaps more so, by prejudices and errors of perception. Individual beliefs can also be manipulated by interest groups, politicians and the government itself, which all have their own biases and beliefs. The responsibility of leaders is to understand and transform opinions so as to make achieving the greatest possible good for the greatest number of people more realizable; maximizing the happiness of their constituents in the short term, or increasing their own popularity is not the objective. For their part, citizens have a greater chance of playing an active role in political processes if they are well informed, not only about objective variables but also about the state of public opinion. A free and vigorous press and inquisitive and critical citizens are essential for disseminating information and enriching public opinion. A good use of information in public decision-making requires many more inputs including capable officials, experienced lawmakers, structured and stable political parties, and effective systems for controlling government. For a better quality of life, a good quality political dialogue is essential.



Index of the Report

Chapters

1 Quality of Life Viewed Through Another Lens

We are all very ignorant, but not all ignorant of the same things.

—Albert Einstein

2 The Personality of Quality of Life Perceptions

Unrealistic optimism is a pervasive feature of human life; it characterizes most people in most social categories.

—Richard H. Thaler and Cass R. Sunstein

3 The Conflictive Relationship Between Income and Satisfaction

Men do not desire merely to be rich, but to be richer than other men.

—John Stuart Mill

4 Satisfaction Beyond Income

Happiness . . . is the best, noblest, and most pleasant thing . . . yet evidently . . . it needs the external goods as well.

—Aristotle

5 Getting a Pulse on Health Quality

With health, everything is a source of pleasure; without it, nothing else, whatever it may be, is enjoyable.

—Arthur Schopenhauer

6 Learning About Education Quality and Perceptions

*To be conscious that you are ignorant
is a great step to knowledge.*

—Benjamin Disraeli

7 Rethinking Conventional Wisdom on Job Quality

*Happiness is not doing what you like,
but liking what you do.*

—Anonymous

8 Urban Quality of Life: More Than Bricks and Mortar

*Socrates, we have strong evidence that the city
pleased you; for you would never have stayed
if you had not been better pleased with it.*

—Plato

**9 The People's Choice? The Role of Opinions
in the Policymaking Process**

*In the naive public-interest view, democracy works
because it does what voters want.*

*In the view of most democracy skeptics,
it fails because it does not do what voters want.*

*In my view, democracy fails because
it does what voters want.*

—Bryan Caplan



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**Harvard University Press
United States and Canada
www.hup.harvard.edu**

**Fondo de Cultura Económica
Latin America and the Caribbean
www.fondodeculturaeconomica.com**

Available for purchase at: www.amazon.com

The discipline of economics is increasingly recognizing that subjective perceptions, as well as objective conditions, are important in determining behavior and feelings of well-being. This breakthrough book is a valuable step forward in documenting and analyzing the nature, causes, and effects of subjective perceptions.

Richard A. Easterlin
Professor of Economics
University of Southern California

This volume provides a readable up-to-date introduction to the new “happiness economics” approach to policymaking. This perspective allows policymakers to incorporate the voice of individual citizens in the evaluation of their communities and states. Although it would be naïve to base policy exclusively on happiness surveys, the approach is a valuable additional tool for evaluating and improving public policy. For this reason, this volume has implications well beyond Latin America to other parts of both the developed and developing world. A timely and very relevant contribution!

Bernard M.S. van Praag
Professor Emeritus of Economics
University of Amsterdam

Viewing the quality of life through the lens of people’s stated satisfactions in some cases reinforces, but often significantly alters an understanding based on standard “objective” indicators. This is an important and very provocative study that will challenge some dimensions of conventional wisdom about the region. It will be of broad interest to all those who are interested in improving the quality of life in Latin America and the Caribbean.

Jere R. Behrman
Professor of Economics and Director of Population Studies Center
University of Pennsylvania
Recipient of the 2008 Carlos Díaz-Alejandro Prize

